

# IDAHO OUTLOOK

## NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

MARCH 2007 VOLUME XXIX NO. 9

We begin this month's *Idaho Outlook* with a mountain fable. Two backpackers are approached by a grizzly bear on a remote Wyoming trail. The first backpacker immediately drops his heavy pack, takes off his hiking boots, and puts on his jogging shoes. The second backpacker sees this and warns his buddy by saying, "Are you crazy! You'll never outrun that bear." The first backpacker confidently responds, "I know. But I don't need to outrun the bear; I just need to outrun you." Sometimes where you finish is more important than how fast you got there. In this issue of the *Outlook* we look at where Idaho's economic growth ranks against other states over the next couple of years.

According to Global Insight, one of the nation's leading economic forecasting firms, U.S. economic growth should grow steadily over the next couple of years. Evidence of this can be seen by reviewing the recent histories and forecasts of three important indicators. First, total U.S. Gross State Product is projected to rise 3.3% from 2007 to 2009, which is up slightly from its 3% pace in 2005 to 2007. Second, national nonfarm employment is projected to advance 1.4% annually during the 2007-2009 period, virtually the same as the 1.3% annual pace in

the previous two years. Third, U.S. nominal personal income expands 5.6%, down just slightly from the previous rate of 5.7%.

Idaho's economy is expected to slow from its recent brisk pace, but it is not likely to become grizzly chow in the near future. In fact, the Gem State is expected to have one of the nation's top performing economies and should finish near the top of the pack. Idaho Gross State Product is expected to slip to a 3.5% annual pace during 2007 to 2009, which is down from the 4.6% for the 2005 to 2007 period. Over the next couple of years Idaho nonfarm employment growth is anticipated to be slower than from 2005 to 2007, 2% versus 3.4%. Idaho personal income is forecast to slip from its previous 7% annual pace to 5.8% during 2007 to 2009. However, even after shifting into lower gear, all of these Idaho economic indicators should grow faster than their national counterparts.

As we mentioned earlier, sometimes what really matters is where you finish. In this regard, the Gem State should do extremely well. During the forecast period, Idaho Gross State Product should be ranked 14<sup>th</sup> among the states, nonfarm employment growth is ranked 7<sup>th</sup>, and personal income growth is

ranked 14<sup>th</sup>. Given these rankings, if Idaho were a hiker it would make it safely back to camp well ahead of a well-fed bear.

When Idaho gets to camp, it should be greeted by a few of its neighbors. Arizona, Nevada, and Utah are all expected to be among the fastest growing states in the nation. Arizona is forecast to lead the nation in real Gross State Product growth. Nevada is projected to enjoy the nation's fastest nonfarm job growth. Utah should place in the top ten for each of these categories along with personal income growth. With such strong rankings anticipated for many of its member states, it is no wonder the Mountain Region is expected to be the nation's star performer.

Other states will not fare as well as Idaho. North Dakota is forecast to experience the slowest (2.2%) annual real Gross State Product growth from 2007 to 2009. Massachusetts nonfarm employment is projected to expand 0.8% annually, the weakest in the nation. Iowa nominal personal income growth should be the nation's slowest at 4.5% per year. These states are advised to make noise, hang their food from a tree, and keep a clean camp to avoid succumbing to *Ursus economicus horribilis*.

C.L. "BUTCH" OTTER, Governor

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## General Fund Update

As of February 28, 2007

<u>Revenue Source</u>	<u>\$ Millions</u>		
	FY07 Executive Estimate <sup>3</sup>	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,273.6	785.8	773.2
Corporate Income Tax	208.2	108.0	93.0
Sales Tax	1,084.7	713.2	707.7
Product Taxes <sup>1</sup>	22.2	16.1	16.1
Miscellaneous	117.6	52.1	57.1
<b>TOTAL GENERAL FUND<sup>2</sup></b>	<b>2,706.3</b>	<b>1,675.2</b>	<b>1,647.1</b>

<sup>1</sup> Product Taxes include beer, wine, liquor, tobacco and cigarette taxes  
<sup>2</sup> May not total due to rounding  
<sup>3</sup> Revised Estimate as of January 2007

General Fund revenue dipped in February, coming up \$17.2 million short for the month. This brings fiscal year-to-date revenue to a level that is \$28.1 million below the predicted amount. The month's weakness was dominated by the individual income tax, but the fiscal year-to-date shortfall is spread across the big three—the individual income tax, the corporate income tax, and the sales tax.

Individual income tax once again dominated the month's results, with net collections coming in \$21.6 million lower than expected. This reverses last month's positive swing, and brings the year-to-date balance to \$12.6 million below the predicted amount. This is due entirely to the continued acceleration of refund

payments, and has the strong likelihood of correcting itself by the fiscal year end. Most of the positive side of the results to date are due to exceptionally strong withholding collections that appeared in January, and are believed to be due to year-end bonuses.

Corporate income tax revenue stabilized in February, coming in \$1.0 million above the target for the month. This leaves the fiscal year-to-date collections \$14.9 million below the predicted amount. Weak gross collections account for the shortfall, standing \$23.7 million below the predicted amount for the year to date. This is offset by refunds that are \$7.6 million lower than predicted, and miscellaneous diversions that are \$1.1 million light.

Sales tax snapped back from a three-month run of under performance, coming in \$2.6 million ahead of the target for February. This brings the fiscal year-to-date total to just \$5.5 million below the predicted amount. February's collections reflect January activity, and do seem to confirm the view that Christmas sales are being increasingly influenced by gift cards, which are not recorded as sales until they are redeemed.

Product taxes continue to track essentially on target, while miscellaneous revenue gained \$0.7 million in February on strong interest earnings. Miscellaneous revenue is now \$4.9 million ahead of expectation on a year-to-date basis.